

to provide the entire interest then due, to claim the balance of arrears from the net surplus of a succeeding year before any payment of dividend can be allotted to the ordinary shares. The term "Preference" indicates that the claim of such stocks upon the profits of the line is prior to that of the owners of ordinary stocks.

Eailways also issue (besides ordinary stock in the usual form) a part of the ordinary stock in the divided form of Preferred and Deferred, the former receiving a fixed rate of interest, the latter a variable rate of dividend in accordance with the net revenue realised during each year. It is obvious that the Preferred Stock is likely to be the more stable in value, since whatever be the net earnings, it receives (after payment of the interest on the different classes of prior issues) a stated return, while the Deferred (and the Unconverted Ordinary) are the subjects of continual speculative transactions, determined in value by the dividend prospects and anticipated results of the working of the line, as dependent upon the absence or imminence of strikes, the activity or depression of trade (and, consequently, of the amount of goods and materials to be carried), the state of the weather for light or heavy traffic (that is, for the carriage of passengers or goods), the cost of coal, the condition of wages, the need of repairs and renewals, the damages for casualties by collision, the wisdom or recklessness of capital extensions, the possibilities (which will operate upon all the obligations of a railway, but with special force upon the ordinary capital) of effective electric traction, and many other elements.

The investor thus perceives the various orders of security from which he may select; practically speaking—that is to say, regarding the risks which are incident to all enterprises and ventures, — the higher-ranking Preference Stocks are equivalent in security to the Debenture Capital, which yields a lower rate of return: if he require the soundest security he will choose Debenture obligations, but he cannot wander astray if he select with their more remunerative income the kind of Preference Stocks to

which I have referred in the principal
Lines; while he is advised, for the
reasons I have assigned, to abstain from
ordinary j3tocks,| and abandon them to
the